

Overview Of The Iowa Lottery Authority



Report to:

**Administration And Regulation
Appropriations Subcommittee**

Feb. 19, 2013

Terry Rich, CEO



Iowa Lottery Authority

Created In 2003

- **Iowa Lottery began in 1985, but later transitioned to the Iowa Lottery Authority.**
- **Iowa Lottery Authority created on July 1, 2003. The Authority is an instrumentality of the state, but is not a state agency.**



Guiding Principles For Iowa's Lottery Found in State Law

Iowa Code Chapter 99G: "... the state should create a public instrumentality of the state in the form of a nonprofit authority known as the Iowa Lottery Authority with comprehensive and extensive powers to operate a state lottery in an entrepreneurial and businesslike manner ..."

"... lottery games shall be operated and managed in a manner that provides continuing entertainment to the public, maximizes revenues and ensures that the lottery is operated with integrity and dignity and free from political influence ..."



Lottery Budgeting

- 143-131-117 (ILOT Personnel) – Focus is on budget and checks and balances.
- CFO and Finance staff prepare annual budget based on several factors including known expenses, most current fiscal year results, economic outlook.
- CEO and Senior Staff review budget recommendation.
- CEO and Lottery Board of Directors modify and approve budget at September public meeting each year. Budget is reported through I-3 Accounting System.
- Budget is reviewed by CEO and Board in June each year to make modifications following legislative decisions for the year. Budget is again reported through I-3 Accounting System.



ILOT Guiding Principles

- Focus is on long-term proceeds vs. sales.
- If ILOT spends \$1, we must sell \$4 to break even, \$5 to make a profit.
- *But most of all: ILOT is dedicated to producing at least \$60 million annually in proceeds to vital state causes.*

Iowa Lottery Sales, Proceeds and Prizes

FY	Sales	Proceeds		Prizes
1986	85,031,584	27,631,613		39,269,612
1987	98,292,366	31,157,797		47,255,945
1988	128,948,560	40,090,157		65,820,798
1989	172,488,594	49,183,227		92,563,898
1990	168,346,888	50,535,644		90,818,207
1991	158,081,953	44,053,446	Casino gambling	86,382,329
1992	166,311,122	45,678,558		92,939,035
1993	207,192,724	56,092,638		116,820,274
1994	206,941,796	56,654,308		116,502,450
1995	207,648,303	58,159,175		112,563,375
1996	190,004,182	51,337,907	Slots at racetracks	102,820,278
1997	173,655,030	43,282,909		96,897,120
1998	173,876,206	42,947,928		96,374,445
1999	184,065,581	45,782,809		101,981,094
2000	178,205,366	44,769,519		98,392,253
2001	174,943,317	44,250,798		96,712,105
2002	181,305,805	48,165,186		99,996,233
2003	187,829,568	47,970,711		104,199,159
2004	208,535,200	55,791,763	Authority status	114,456,963
2005	210,669,212	51,094,109		113,455,673
2006	339,519,523	80,875,796	TouchPlay	122,258,603
2007	235,078,910	58,150,437		133,356,860
2008	249,217,468	56,546,118		144,669,575
2009	243,337,101	60,553,306		138,425,341
2010	256,255,637	57,907,066		150,453,787
2011	271,391,047	68,001,753		158,961,078
2012	310,851,725	78,731,949		182,442,447
YTD 2013 (through January)	189,041,447	47,842,662		111,748,243
	5,557,066,214	1,443,239,289		3,028,537,180



Authority Powers

- Iowa Lottery Authority is entirely self funded, monies of the state can't be used to pay its expenses.
- Lottery Authority has limited powers to buy real estate, borrow money.
- Other issues: competitive bidding, retailer licensing, prizes, legal representation, law enforcement investigations, open records, advertising expenditure limit.



Personnel Budget Details

- Lottery CEO appointed by governor and confirmed by Senate, but serves a set four-year term.
- Lottery Authority personnel are public employees.
- With Lottery Board approval, CEO may designate some non-contract employees as key personnel. They are exempt from the merit system and report jointly to the CEO and Board.
- All other employees are employed in accordance with Iowa Code Chapters 19A and 20.

Audits and Reports



- Lottery Authority reports quarterly and annually to the Governor, Auditor and Legislature.
- Authority also reports twice a year to Legislative Oversight Committees. The Authority comes under legislative review, but is not subject to appropriations process.
- Authority is audited annually.
- Lottery Authority proceeds benefit state programs.



Current Issues

- **Maintain integrity**
- **Gas prices, economic uncertainty**
- **Internet gaming**
- **Guard against lack of creativity in business development (avoid Kodak effect)**

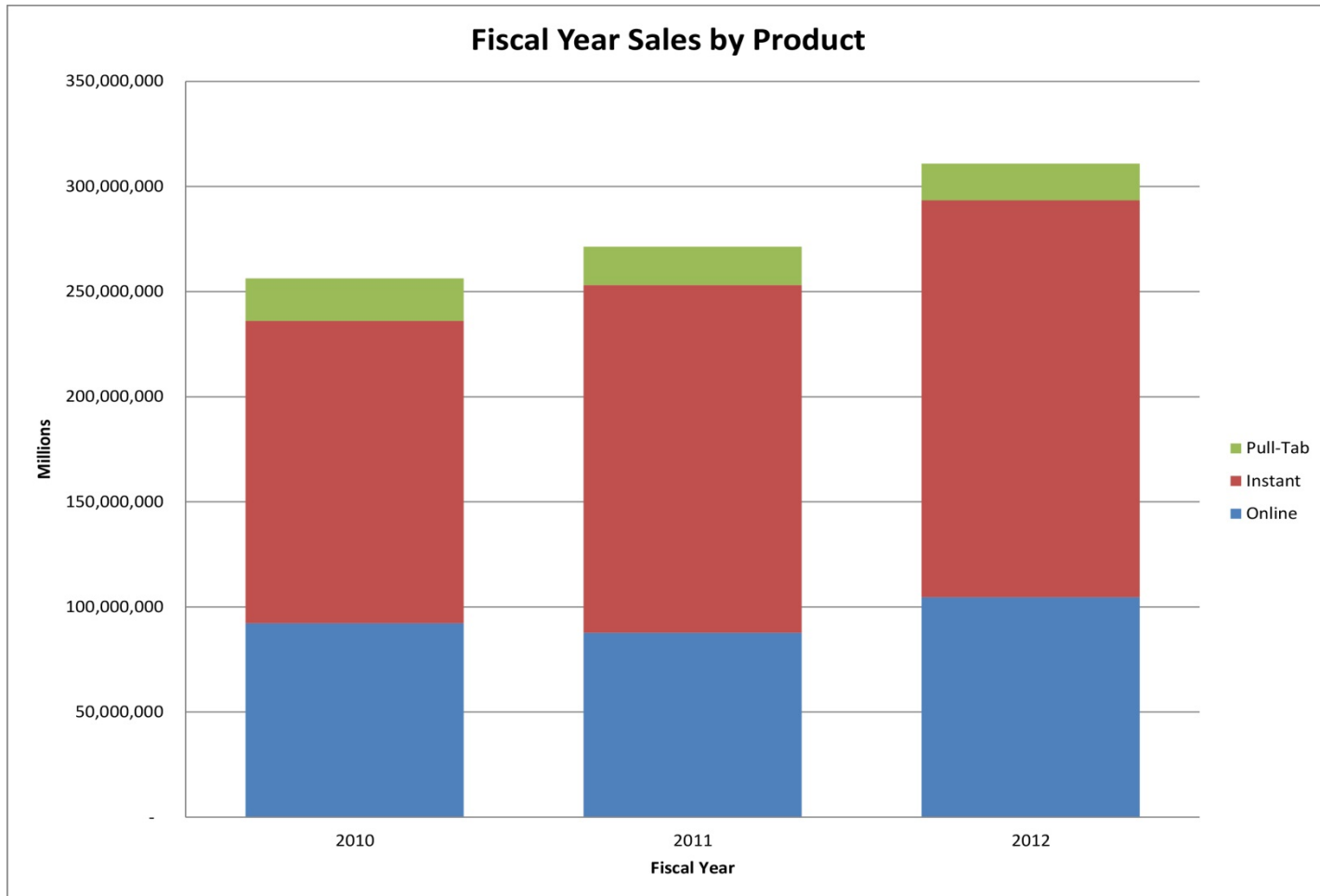


FY 2013

- **Continue current success**
- **Diversify retailer base/modernize delivery**
- **Possible new national lotto game**
- **Update vending machines**
- **Cooperative efforts with state agencies**

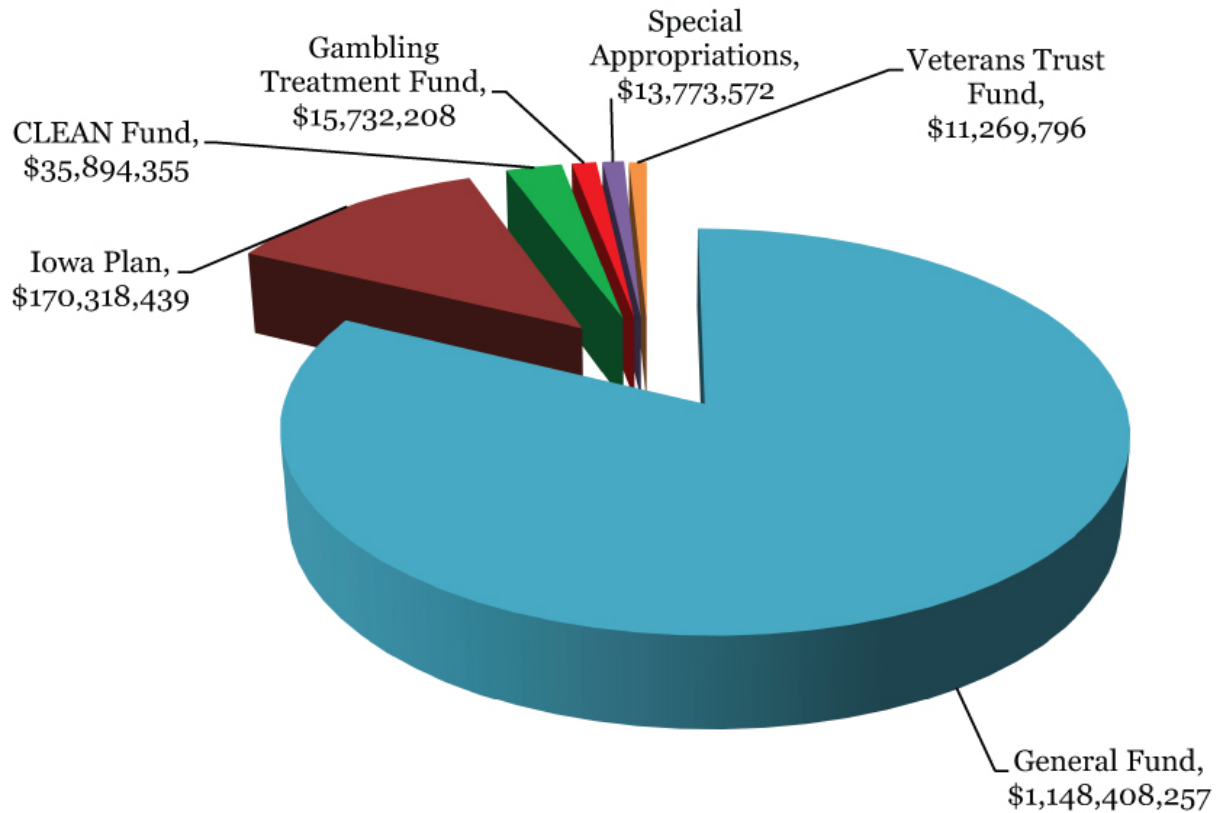


Sales By Category





Where The Money Goes



Figures current through June 30, 2012.

IOWA LOTTERY AUTHORITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR FISCAL YEARS 2008 THROUGH 2012
FINAL

	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008
OPERATING REVENUES					
Instant-scratch ticket sales	\$ 188,814,325	\$165,329,031	143,759,258	136,268,555	\$137,917,848
Pick 3 sales	6,743,717	6,573,020	6,531,001	6,534,765	6,373,362
Powerball sales	57,934,104	47,124,656	59,190,012	58,220,203	63,761,024
Mega Millions sales	22,293,152	16,051,016	5,544,128	0	0
Hot Lotto sales	10,525,347	11,608,730	13,653,746	14,329,610	11,724,416
Raffle sales	0	0	789,200	0	1,425,460
Pick 4 sales	2,788,613	2,701,949	2,662,191	2,555,237	2,315,469
\$100,000 Cash Game sales	4,314,098	3,687,370	3,908,785	4,113,307	4,291,933
Pull-tab sales	17,438,369	18,315,275	20,217,316	21,315,424	21,407,956
Application fees	4,075	5,575	3,975	3,680	5,150
Other revenue	212,884	138,133	22,147	65,449	47,962
Total operating revenues	311,068,684	271,534,755	256,281,759	243,406,230	249,270,580
OPERATING EXPENSES					
Scratch ticket prize expense	116,954,213	103,652,725	91,479,848	81,846,620	85,907,684
Pick 3 prize expense	3,993,780	3,894,422	3,958,003	3,834,735	3,763,710
Powerball prize expense	28,287,777	22,553,385	28,558,287	28,118,140	30,749,779
Mega Millions prize expense	11,307,020	8,365,976	2,879,811	0	0
Hot Lotto prize expense	5,118,123	5,608,729	6,610,476	7,015,713	5,668,710
Raffle prize expense	0	0	392,876	(10,500)	1,200,000
Pick 4 prize expense	1,634,063	1,596,054	1,544,018	1,473,587	1,352,661
\$100,000 Cash Game prize expense	2,175,236	1,745,257	2,005,333	2,271,476	2,525,366
Pull-tab prize expense	10,912,790	11,458,672	12,702,718	13,389,649	13,397,429
VIP Club prize expense	1,907,142	0	0	0	0
Promotional prize expense	152,303	85,858	322,417	485,921	104,236
Advertising/Publicity	6,605,304	6,647,468	7,539,052	7,007,617	7,307,529
Retailer compensation expense	20,125,497	17,284,432	16,109,637	15,298,641	15,650,431
Ticket expense	3,115,487	2,784,308	2,683,364	2,674,067	2,444,025
Vendor compensation expense	6,204,116	5,848,081	8,168,273	7,796,934	7,823,721
Salary and benefits	9,120,063	8,650,620	9,819,749	8,759,206	9,435,111
Travel	451,040	415,007	369,153	404,876	443,445
Supplies	147,091	110,465	104,863	110,739	107,592
Printing	15,031	13,830	14,477	9,582	17,737
Postage	6,238	5,112	6,166	4,718	4,528
Communications	130,366	518,708	562,025	568,096	574,029
Rentals	290,595	277,163	285,660	290,254	277,173
Utilities	97,579	103,438	98,468	103,240	114,292
Professional fees	165,225	118,062	165,833	121,965	144,953
Vending machine maintenance	537,941	526,196	488,697	489,809	492,495
Outside services & repairs	460,445	306,730	403,083	197,386	264,151
Data processing	50,320	46,670	37,700	40,929	37,998
Equipment	719,188	387,674	152,832	204,598	155,425
Reimbursement to other					
state agencies	433,436	432,878	455,697	435,976	500,235
Depreciation	173,611	117,508	864,963	1,403,051	1,407,901
Other	56,009	58,006	104,355	132,141	129,169
MUSL administrative expense	45,106	40,528	17,818	0	0
Total operating expenses	231,392,135	203,653,962	198,905,652	184,479,166	192,001,515
Operating income (loss)	79,676,549	67,880,793	57,376,107	58,927,064	57,269,065

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FOR FISCAL YEARS 2008 THROUGH 2012
FINAL

	Fiscal Year 2012	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009	Fiscal Year 2008
Non-operating revenue (expense)					
State General Fund	(76,012,455)	(64,896,382)	(55,245,512)	(56,550,792)	(55,296,265)
Veterans Trust Fund	(2,719,494)	(3,105,371)	(2,661,554)	(2,783,377)	0
Gambler's Treatment Program	0	0	0	(1,219,137)	(1,249,853)
Interest income	105,755	146,178	364,957	421,090	699,922
Interest expense	(39,134)	(42,418)	(45,702)	(48,986)	(109,467)
Net non-operating revenues(expense)	(78,665,328)	(67,897,993)	(57,587,811)	(60,181,202)	(55,955,663)
Change in net assets	1,011,221	(17,200)	(211,704)	(1,254,138)	1,313,402
Net assets, beginning of period	4,184,739	4,201,939	4,413,643	5,667,781	4,354,379
Net assets, end of period	\$5,195,960	\$4,184,739	\$4,201,939	\$4,413,643	\$5,667,781

Budget for Lottery Fund

	FY 2012 ACTUAL	FY 2013 BOARD APPROVED BUDGET	FY 2014 BOARD APPROVED BUDGET	FY 2015 BOARD APPROVED BUDGET
Resources				
Lottery sales	310,851,725	277,100,000	281,000,000	287,685,000
Interest income	105,755	500,000	500,000	500,000
Application fees	4,075	5,000	5,000	5,000
Other	212,884	5,000	5,000	5,000
Total Resources	311,174,439	277,610,000	281,510,000	288,195,000
Expenses and Change in Net Assets				
Prizes	182,442,447	163,617,856	165,430,394	169,357,666
Retailer compensation	20,125,497	17,648,025	18,193,075	18,625,889
Advertising production and media purchases	6,603,456	11,084,000	11,240,000	11,507,400
Retailer Lottery system/Terminal Communications	6,213,722	6,392,184	6,474,240	6,628,262
Instant/Pull-tab ticket expense & machine maintenance	3,705,428	3,622,000	4,085,000	4,185,000
Terminal equipment/Ticket dispensers/Vending machines	213,216	200,000	250,000	250,000
Courier delivery of instant tickets	108,581	455,000	535,000	535,000
Interest expense (ITVM/PTVM/Building)	39,134	45,000	32,840	29,556
Lottery operating expense	11,979,788	12,592,649	13,015,308	14,519,808
Increase (decrease) in net assets	1,011,221	48,341	48,341	48,341
Total Expenses and Change in Net Assets	232,442,490	215,705,055	219,304,198	225,686,922
Proceeds				
Proceeds Transfer to General Fund	76,012,455	59,104,946	59,405,802	59,708,078
Proceeds Transfer to Veterans Trust Fund	2,719,494	2,800,000	2,800,000	2,800,000
Total Proceeds Transfers	78,731,949	61,904,946	62,205,802	62,508,078
Total Expenses and Proceeds	311,174,439	277,610,000	281,510,000	288,195,000

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Lottery Support For Iowa Businesses **And Iowa's Economy**

Big jackpots and prize winners may be what generate headlines, but in addition to providing a secure source of entertainment to players statewide, the Iowa Lottery has enjoyed making a positive difference in the Iowa economy for 28 years.



The lottery appreciates the diversity of Iowa's marketplace and is proud to provide an economic development boost in the form of millions of dollars in annual commissions to the nearly 2,400 businesses statewide that sell its products. In addition, the lottery purchases millions of dollars in goods and services in Iowa each year through publicly vetted bids and contracts.

Add in the millions of dollars won by lottery players each year and the millions more raised by the lottery for state causes and the lottery's significant impact on Iowa becomes clear.

In the lottery's most recent financial year, nearly 70 percent of Iowa Lottery expenditures for goods and services went to businesses in Iowa.

There have been some big success stories through the years for Iowa companies that do business with the lottery. Schafer Systems Inc. in Adair consulted with the Iowa Lottery more than 25 years ago when it wanted to design ticket dispensers for lotteries. A successful business sprang from that initial concept and today, Schafer Systems is a leading supplier of ticket dispensers to the lottery industry.



Likewise, the Iowa Lottery has printed its pull-tab tickets with American Games Inc. in Council Bluffs, a leading supplier in the pull-tab industry, since that product made its Iowa debut in 1987. The lottery also has had advertising contracts for 22 years with West Des Moines-based Strategic America.



In some instances, however, it simply isn't possible for the lottery to make a purchase in Iowa. For example, the printing of instant-scratch tickets for the U.S. lottery market is only done by three companies in the world, none of which are located in Iowa.

That also is the case for the companies that supply sales and validations terminals and communications systems to lotteries. Only a few companies in the world have the expertise to supply such secure systems, and none of them are located in Iowa. The lottery's contract for its terminals and communications system is with Scientific Games International in Alpharetta, Ga. However, one of the requirements in the lottery's contract is that the company have an office in Iowa. The Scientific Games office in Urbandale employs 31, so a portion of the money that the lottery spends with that company stays in Iowa.

FY 2012 QUICK FACTS

PRIZES: The lottery's single largest return to the Iowa economy is in prizes to its players – money that is then available to circulate back through Iowa businesses. In fiscal year 2012, prizes to players totaled \$182.4 million.

STATE PROCEEDS: Iowa programs benefited from \$88.6 million in total lottery returns to the state, including \$78.7 million in proceeds and \$9.9 million in withholding from prizes in FY 2012. Today, lottery proceeds in Iowa have three main purposes: They provide support for veterans; help for a variety of significant projects through the state General Fund; and backing for the Vision Iowa program, which was implemented to create tourism destinations and community attractions in the state and build and repair schools.

SALES COMMISSIONS: Retailers across the state received more than \$20.1 million in commissions from the lottery in FY 2012 for their daily work selling lottery tickets. Lottery tickets today are sold at nearly 2,400 locations in Iowa, including convenience stores, gas stations, grocery stores and bars.

LOTTERY PURCHASES FROM IOWA BUSINESSES: In FY 2012, the Iowa lottery also purchased nearly \$10 million in other goods and services from 146 businesses statewide.